Oriflex BP Regeling
Oriflex Obligaties
Stichting Pensioenfonds Atos Origin
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BLACKROCK

General Comment on Market Developments

Despite slowing the pace of the rate hikes, the last ECB meeting of the year provided a hawkish message with President Lagarde stressing the need to increase rates “significantly higher”. The deposit rate is now 2%, with speed of recent tightening (250bps in the last 6 months) unprecedented as ECB looks to subdue extremely elevated levels of inflation. Plans were also released to stop replacing maturing bonds from its Eur5trn balance sheet, reducing monthly reinvestments from its Asset Purchase Programme by Eur15bn starting in March with any revisions to the pace of reduction occurring from July.

Updated ECB staff projections reflected the hawkish rhetoric with inflation expected to stay above 2% until 2025. The forecast for 2023 inflation was increased to 6.3% from 5.5% with core (excluding energy and food) 4.2% from 3.4% despite notable improvements in energy markets and further easing of supply bottlenecks. GDP growth was revised down to 0.5% next year while the 2024 projection was unchanged 1.9%.

Markets reacted by increasing the projected terminal rate to around 3.30% (40bps higher) with 2-year German bonds witnessing one of their largest daily moves in history. The ECB is expected to raise rates by a similar increment in February with further hawkish rhetoric and Bank of Japan (BOJ) amending their yield control framework pushing the terminal rate closer to 3.50% at the end 2022. Excess reserves in the Eurozone fell to Eur4trn (from 4.5trn) after the latest repayment of TLTRO loans although there was little disruption in overnight markets with ECB Deposit Rate – ESTR spread stable around 10bps.

Assisted by the ECB rhetoric, BOJ monetary policy adjustment and resilient economic data curves moved materially higher through December. German 10-year bunds closed 2022 at yearly highs of 2.56% and although hawkish ECB initially saw the curves flatten further (2s10s -32bps) we finished the month -15bps. The talk of higher rates was negative for periphery assets, the spread between Italian and German 10 years bonds moving above 200bps with outright yield on 10yr BTP’s 4.68%. Italian cabinet ministers were very vocal in criticising the ECB with Defence minister Guido Crosetto stating aggressive monetary policy makes ‘no sense’

Aiming to limit the volatility witnessed in natural gas markets this year EU energy ministers reached an agreement to cap gas prices in the eurozone when they hit 180 Eurs per MWh. More aggressive than earlier suggestions (240 Eur per MWh), the price would cap would have been triggered this summer when Europe needed to fill up gas storages pre-winter. Leaving room to circumvent the cap, Germany, who had opposed the policy agreed to the deal after safeguards were implemented allowing flexibility to remove the limit if there were gas shortages.

In credit, demand for physical bonds continued with investment grade corporate spreads tightening through the month. Finishing December at 167bps, there was little reaction to the sell-off in duration with spreads unchanged post ECB. Despite higher rates impacting High Yield issuers to a greater extent due to concentration and shorter duration of funding, spreads finished the month tighter demonstrating a similar compression to IG assets. All sub sector spreads finished the month tighter with financials leading the way in terms of performance. European IG outperformed US IG where pace of hikes and inversion of yield curve has diminished the spread between yields on liquidity funds and shorter duration credit strategies.

The Bloomberg Euro-Aggregate Corporate Index performance produced a total return of -3.64% in December, of which excess return was 0.11%. Final figures for the year illustrated the index incurred a total return of -17.17% with excess return -1.06%.

Performance

Credit Allocation (-): An overweight to credit beta contributed overall to performance given the long beta position and the continued tightening in IG corporate spreads. Hedges against recent cash bond additions implemented via iTraxx Sub Financials index detracted, however.

Security and Sector selection (+): Allocations to allocation to senior banks was the strongest contributor to performance, reflecting current risk allocations and the outperformance of financials over the month. Subordinated allocations, in both Tier 2 and Add Tier 1 securities, also contributed. An allocation to senior Utilities held versus BTPs also contributed to alpha.

Duration and Yield Curve (+): The fund’s duration trades contributed, driven by via shorts in 5-year European rates and 10-year US rates.

Omvang fonds

Waarde begin van de periode	€96,503,606
Waarde eind van de periode	€89,136,959

Rendement

%	Kwartaal	Jaar tot op heden	3-Jaars Ann.	5-Jaars Ann.	10-Jaars Ann.
Fonds	-0.42%	-17.77%	-5.86%	-2.08%	8.15%
Benchmark	-2.06%	-18.44%	-6.14%	-2.28%	0.79%

Outlook

President Lagarde’s language emphasised the ECB’s commitment to reduce inflationary pressure. Combined with forward looking economic data plateauing, conditions within financial markets failing to show signals of stress, and a historically tight labour market, the risk of second round inflationary effects are present. ECB member Isabel Schnabel was very vocal of the risk to persistent inflation in the eurozone with surveys illustrating 40% of consumers expect inflation to be 5% or above in 3 years’ time. In conjunction with a material amount of new bond supply in Q1 we are biased to remain underweight duration in the near term. In forward inflation and rates markets (notably 5Y5Y), expectations are materially above the ECB policy target (2% inflation) and economist forecasted neutral interest rate (1.50% – 2%). A hawkish ECB has raised the probability of overtightening in the short term, increasing the likelihood of long-term damage to the economy and conflicting current pricing. We therefore maintain a short position in 5Y5Y European inflation. Exposure to credit was tactically reduced through December as spreads enjoyed a rally into the end of the year. Remaining positive on the asset class with valuations attractive despite recent performance (since June 1998 the average EuroAgg Corporate IG spread is 129bps) we felt it prudent to reduce risk and build cash buffers in advance of new supply in January. Preference remains towards banking and utility sectors given the benefit from higher interest rates and energy led inflationary pressure. We remain cautious on REIT’s and High Yield given the impact of higher interest rates and re-financing risk in 2023. With credit spread curves now flat in the 5 to 10-year area, we favour shorter dated bonds.